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Audited Financial Statements: State of Maine Unorganized Territory Education and Services Fund, June 30, 2011

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Audited Financial Statements

State of Maine Unorganized Territory Education and Services Fund

June 30, 2011



Proven Expertise and Integrity

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

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INDEPENDENT AUDITORS' REPORT

December 12, 2011

State Auditor
State of Maine Department of Audit
Unorganized Territory Education and Services Fund
Augusta, Maine

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Maine Unorganized Territory Education and Services Fund's, as of and for the year ended June 30, 2011, which collectively comprise the State of Maine Unorganized territory Education and Services Fund's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Maine Unorganized Territory Education and Services Fund's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in the notes to the financial statements, the financial statements present only the accounts of the State of Maine Unorganized Territory Education and Services Fund, a fund of the State of Maine, and do not purport to, and do not present fairly, the financial position of the State of Maine, and the changes in financial position in conformity with accounting principles generally accepted in the United States of America. The State of Maine Unorganized Territory Education and Service Fund is a fund of the State of Maine. Certain disclosures relevant to both the State of Maine and the State of Maine Unorganized Territory Education and Services Fund are omitted herein and have been disclosed in the State of Maine's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Maine Unorganized Territory Education and Services Fund's as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2011 on our consideration of the State of Maine Unorganized Territory Education and Services Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Maine Unorganized Territory Education and Services Fund's financial statements as a whole. The combining schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RHR Smith & Company

Certified Public Accountants

**REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

(UNAUDITED)

The following management's discussion and analysis of the State of Maine Unorganized Territory Education and Services Fund's financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the Fund's financial statements.

Financial Statement Overview

The State of Maine Unorganized Territory Education and Services Fund's basic financial statements include the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes required supplementary information which consists of the general fund budgetary comparison schedule, and other supplementary information which includes combining and other schedules.

Basic Financial Statements

The basic financial statements include financial information in two differing views: the government-wide financial statements and the fund financial statements. These basic financial statements also include the notes to financial statements that explain in more detail certain information in the financial statements and also provide the user with the accounting policies used in the preparation of the financial statements.

Government-Wide Financial Statements

The government-wide financial statements provide a broad view of the Fund's operations in a manner that is similar to private businesses. These statements provide both short-term as well as long-term information in regards to the Fund's financial position. These financial statements are prepared using the accrual basis of accounting. This measurement focus takes into account all revenues and expenses associated with the fiscal year regardless of when cash is received or paid. The government-wide financial statements include the following two statements:

The Statement of Net Assets – this statement presents *all* of the government's assets and liabilities with the difference being reported as net assets.

The Statement of Activities – this statement presents information that shows how the government's net assets changed during the period. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The types of activities presented for the State of Maine Unorganized Territory Education and Services Fund are:

- *Governmental activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues. All of the Fund's basic services are reported in governmental activities, which include education, county reimbursements for services, departmental, county tax and tax increment financing.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State of Maine Unorganized Territory Education and Services Fund, like other local governments uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. All of the funds of the State of Maine Unorganized Territory Education and Services Fund are either governmental or fiduciary funds.

Governmental funds: Most of the basic services provided by the Fund are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported in governmental activities in the government – wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balance of spendable resources available at the end of the fiscal year. Such information will be useful in evaluating the government's near-term financing requirements. This approach is known as the current financial resources measurement focus and the modified accrual basis of accounting. Under this approach revenues are recorded when cash is received or when susceptible to accrual. Expenditures are recorded when liabilities are incurred and due. These statements provide a detailed short-term view of the Fund's finances to assist in determining whether there will be adequate financial resources available to meet the current needs of the Fund.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The State of Maine Unorganized Territory Education and Services Fund presents one column in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances. The Fund has one major governmental fund: the general fund.

The general fund is the only fund for which the Fund legally adopted a budget. The Budgetary Comparison Schedule – Budgetary Basis – Budget and Actual –

General Fund provides a comparison of the original and final budget and the actual expenditures for the current year.

Fiduciary Funds: These funds are used to account for resources held for the benefit of parties outside the State of Maine Unorganized Territory Education and Services Fund. These funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Fund's own programs. The accounting used for fiduciary funds are much like that of proprietary funds. They use the accrual basis of accounting.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and the Fund Financial Statements. The Notes to Financial Statements can be found following the Statement of Fiduciary Net Assets.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information, which includes a Budgetary Comparison Schedule – Budgetary Basis – Budget and Actual – General Fund.

Other Supplementary Information

Other supplementary information follows the required supplementary information. These other schedules provide information in regards to other detailed budgetary information for the general fund.

Government-Wide Financial Analysis

Our analysis below focuses on the net assets, and changes in net assets of the Fund's governmental activities. The Fund's total net assets increased by \$966,300 from \$6,710,324 to \$7,676,624.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased by \$1,370,714 to a balance of \$5,880,299 at the end of this year.

Table 1
State of Maine Unorganized Territory
Education and Services Fund
Net Assets
June 30,

	<u>2011</u>	<u>2010</u>
Assets:		
Current and Other Assets	\$ 6,474,557	\$ 5,968,808
Capital Assets	<u>1,796,325</u>	<u>2,200,739</u>
Total Assets	<u><u>\$ 8,270,882</u></u>	<u><u>\$ 8,169,547</u></u>
Liabilities:		
Current Liabilities	\$ 594,258	\$ 1,459,223
Long-term Debt Outstanding	<u>-</u>	<u>-</u>
Total Liabilities	<u><u>\$ 594,258</u></u>	<u><u>\$ 1,459,223</u></u>
Net Assets:		
Invested in Capital Assets,		
Net of Related Debt	\$ 1,796,325	\$ 2,200,739
Other Net Assets	<u>5,880,299</u>	<u>4,509,585</u>
Total Net Assets	<u><u>\$ 7,676,624</u></u>	<u><u>\$ 6,710,324</u></u>

Table 2
State of Maine Unorganized Territory
Education and Services Fund
Change in Net Assets
For The Years Ended June 30,

	<u>2011</u>	<u>2010</u>
Revenues		
Taxes	\$ 26,097,259	\$ 27,354,109
Intergovernmental	481,893	564,259
Charges for services	101,622	185,394
Miscellaneous	216,256	383,629
Total Revenues	<u>26,897,030</u>	<u>28,487,391</u>
Expenses		
Education	11,122,444	11,464,052
County reimbursements for services	5,821,024	6,011,777
Departmental	1,899,487	1,411,575
County tax	4,587,791	4,578,981
Tax increment financing	2,334,253	1,204,744
Overlay	-	-
Depreciation	165,731	191,461
Total Expenses	<u>25,930,730</u>	<u>24,862,590</u>
Change in Net Assets	966,300	3,624,801
Net Assets - July 1	<u>6,710,324</u>	<u>3,085,523</u>
Net Assets - June 30	<u>\$ 7,676,624</u>	<u>\$ 6,710,324</u>

Revenues and Expenses

Revenues for the Fund's governmental activities decreased by 4.42%, while total expenses increased by 5.63%. The decrease in revenue is due mainly to a decrease in property taxes. The increase in expenses is due mainly to the increase in tax increment financing and overlay expense.

Financial Analysis of the Fund's Fund Statements

Governmental funds: The financial reporting focus of the Fund's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information may be useful in assessing the Fund's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's financial position at the end of the year, and the net resources available for spending.

Table 3
State of Maine Unorganized Territory
Education and Services Fund
Fund Balances - Governmental Funds
June 30,

	<u>2011</u>	<u>2010</u>
General Fund:		
Nonspendable	\$ 218,466	\$ 159,521
Committed	2,000,000	-
Unassigned	<u>3,164,709</u>	<u>4,350,064</u>
Total General Fund	<u>\$ 5,383,175</u>	<u>\$ 4,509,585</u>

The general fund total fund balance increased by \$873,590 over the prior fiscal year due to a savings in educational expenditures.

Budgetary Highlights

There was no significant difference between the original and final budget for the general fund.

The general fund actual revenues were more than the budget by \$357,963. This was a result of most revenues collected under the budgeted amount.

The general fund actual expenditures were under budget by \$1,231,553. The following expenditures were under budget which accounts for all of the balance:

Education	\$ 910,026
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Capital Assets and Debt Administration

Capital Assets

As of June 30, 2011, the net book value of capital assets recorded by the Fund decreased by \$404,414 over the prior year. The increase was due to capital additions of \$192,784 less net deletions of \$431,467 and current year depreciation of \$165,731.

Table 4
State of Maine Unorganized Territory
Education and Services Fund
Capital Assets (Net of Depreciation)
June 30,

	<u>2011</u>	<u>2010</u>
Land	\$ 13,585	\$ 26,125
Building and improvements	1,162,109	1,628,049
Vehicles and equipment	<u>620,631</u>	<u>546,565</u>
Total	<u><u>\$ 1,796,325</u></u>	<u><u>\$ 2,200,739</u></u>

Debt

As of June 30, 2011, the Fund had no long-term debt.

Economic Factors and Next Year's Budgets and Rates

The Fund has been building a sufficient undesignated fund balance to sustain government operations for a period of approximately two months.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Fund's finances and to show the Fund's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the State of Maine – Department of Audit at 66 State House Station, Augusta, Maine 04333.

STATEMENT A

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Accounts receivable (net of allowance for uncollectibles)	\$ 700,257
Due from State of Maine Treasury	<u>5,774,300</u>
Total current assets	<u>6,474,557</u>
Noncurrent assets:	
Capital assets:	
Land, infrastructure, and other assets not being depreciated	13,585
Buildings and equipment, net of accumulated depreciation	<u>1,782,740</u>
Total noncurrent assets	<u>1,796,325</u>
TOTAL ASSETS	<u><u>\$ 8,270,882</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 387,661
Accrued expenses	168,300
Taxes paid in advance/overpaid taxes	<u>38,297</u>
Total current liabilities	<u>594,258</u>
TOTAL LIABILITIES	<u>594,258</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,796,325
Unrestricted	<u>5,880,299</u>
TOTAL NET ASSETS	<u>7,676,624</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 8,270,882</u></u>

See accompanying independent auditors' report and notes to financial statements.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue & Changes in Net Assets
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Total Governmental Activities
Governmental activities					
Current:					
Education	\$ 11,122,444	\$ 101,622	\$ -	\$ -	\$ (11,020,822)
County reimbursements for services	5,821,024	-	-	-	(5,821,024)
Departmental	1,899,487	-	-	-	(1,899,487)
County tax	4,587,791	-	-	-	(4,587,791)
Tax increment financing	2,334,253	-	-	-	(2,334,253)
Overlay	-	-	-	-	-
Unallocated depreciation	165,731	-	-	-	(165,731)
Total governmental activities	<u>25,930,730</u>	<u>101,622</u>	<u>-</u>	<u>-</u>	<u>(25,829,108)</u>
General revenue:					
Taxes:					
Property and excise taxes, levied for general purposes					26,097,259
Intergovernmental revenues					481,893
Miscellaneous					<u>216,256</u>
Total general revenue					<u>26,795,408</u>
Change in net assets					966,300
NET ASSETS - JULY 1, 2010					<u>6,710,324</u>
NET ASSETS - JUNE 30, 2011					<u>\$ 7,676,624</u>

See accompanying independent auditors' report and notes to financial statements.

STATEMENT C

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2011

	Governmental Fund Types
	General Fund
ASSETS	
Receivables (net of allowance for uncollectibles):	
Taxes receivable - current year	\$ 413,716
Taxes receivable - prior years	126,064
Tax liens	11,618
Due from other governments	88,699
Other	60,160
Due from State of Maine Treasury	<u>5,774,300</u>
TOTAL ASSETS	<u><u>\$ 6,474,557</u></u>
LIABILITIES AND FUND EQUITY	
Liabilities	
Accounts payable	\$ 387,661
Accrued wages	168,300
Taxes paid in advance/overpaid taxes	38,297
Deferred tax revenue	<u>497,124</u>
TOTAL LIABILITIES	<u>1,091,382</u>
Fund Equity	
Nonspendable	218,466
Restricted	-
Committed	2,000,000
Assigned	-
Unassigned	<u>3,164,709</u>
TOTAL FUND EQUITY	<u>5,383,175</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 6,474,557</u></u>

See accompanying independent auditors' report and notes to financial statements.

STATEMENT D

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

	Total Governmental Funds
Total Fund Equity	\$ 5,383,175
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds shown above:	
Taxes and liens receivable	497,124
Amounts reported for governmental activities in the statement are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation	<u>1,796,325</u>
Net assets of governmental activities	<u>\$ 7,676,624</u>

See accompanying independent auditors' report and notes to financial statements.

STATEMENT E

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Governmental <u>Fund Type</u> <u>General</u>
REVENUES	
Property taxes	\$ 26,097,259
Intergovernmental revenues	481,893
Charges for services	101,622
Miscellaneous revenue	<u>216,256</u>
TOTAL REVENUES	<u>26,897,030</u>
EXPENDITURES	
Current:	
Education	11,619,568
County reimbursements for services	5,821,024
Departmental	1,660,804
County tax	4,587,791
Tax increment financing	2,334,253
Overlay	<u>-</u>
TOTAL EXPENDITURES	<u>26,023,440</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	873,590
FUND BALANCES - JULY 1	<u>4,509,585</u>
FUND BALANCES - JUNE 30	<u><u>\$ 5,383,175</u></u>

See accompanying independent auditors' report and notes to financial statements.

STATEMENT F

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds (Statement E)	<u>\$ 873,590</u>
Amounts reported for governmental activities in the Statement of Activities (Statement B) are different because:	
Revenues in the Statement of Activities that do not provide current financial resources as revenues in the funds:	
Taxes and liens receivable	<u>497,124</u>
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocated those expenditures over the life of the assets:	
Capital asset purchases capitalized	192,784
Capital asset deletions	(431,467)
Depreciation expense	<u>(165,731)</u>
	<u>(404,414)</u>
Change in net assets of governmental activities (Statement B)	<u><u>\$ 966,300</u></u>

See accompanying independent auditors' report and notes to financial statements.

STATEMENT G

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
JUNE 30, 2011

	Agency Funds		
	Excise Taxes	Student Accounts	Totals
ASSETS			
Cash	\$ -	\$ 32,958	\$ 32,958
Due from State of Maine Treasury	226,267	-	226,267
TOTAL ASSETS	<u>\$ 226,267</u>	<u>\$ 32,958</u>	<u>\$ 259,225</u>
LIABILITIES AND FUND EQUITY			
Liabilities			
Due to Counties - excise taxes	\$ 226,267	\$ -	\$ 226,267
Due to Student Groups	-	32,958	32,958
TOTAL LIABILITIES	<u>226,267</u>	<u>32,958</u>	<u>259,225</u>
Fund Equity			
Fund Balances:			
Assigned	-	-	-
Unassigned	-	-	-
TOTAL FUND EQUITY	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 226,267</u>	<u>\$ 32,958</u>	<u>\$ 259,225</u>

See accompanying independent auditors' report and notes to financial statements.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The State of Maine Unorganized Territory Education and Services Fund provides services to 420 townships and 75 offshore islands. Several State agencies provide services to the Fund including: road and bridge maintenance, contracting for snow removal, fire protection, solid waste disposal, animal control and other administrative activities.

The Fund's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The Fund's combined financial statements include all accounts and all operations of the Fund. We have determined that the Fund has no component units as described in GASB Statement No. 14 and amended by GASB Statement No. 39.

Government –Wide and Fund Financial Statements

The Fund's basic financial statements include both government-wide (reporting the Fund as a whole) and fund financial statements (reporting the Fund's major funds).

Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. All activities of the Fund are categorized as governmental.

In the government-wide Statement of Net Assets, the governmental activity column is (a) presented on a consolidated basis by column, and (b) is reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Fund's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Fund first utilizes restricted resources to finance qualifying activities.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government-wide Statement of Activities reports both the gross and net cost of each of the Fund's functions (education, county reimbursements for services, departmental, etc.). The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, miscellaneous revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function) are normally covered by general revenue (taxes, certain intergovernmental revenues and miscellaneous revenues, etc.).

The Fund does not allocate indirect costs. All costs are charged directly to the corresponding department.

The government-wide focus is more on the sustainability of the Fund as an entity and the change in the Fund's net assets resulting from the current year's activities.

Measurement Focus - Basic Financial Statements & Fund Financial Statements

The financial transactions of the Fund are reported in the individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Fund:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Fund:

- a. The General Fund is the general operating fund of the Fund. It is used to account for all financial resources except those required to be accounted for in another fund. It is classified as a major fund.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Fiduciary Funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Fund programs. The reporting focus is on net assets and changes in net assets and the funds are reported using accounting principles similar to proprietary funds.

The Fund's fiduciary funds are presented in the fiduciary fund financial statements by type (agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements. The fiduciary funds are for excise taxes and student activity accounts.

The emphasis in fund financial statements is on the major funds in the governmental activities category. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenses of either the fund category or the governmental and enterprise combined) for the determination of major funds.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

1. Accrual

Governmental activities in the government-wide financial statements and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Modified Accrual

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Budget

The Fund's policy is to adopt an annual budget for operations. The budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

The following procedures are followed in establishing budgetary data reflected in the financial statements:

1. Each year the Fiscal Administrator of the Fund requests budget information from the State agencies and counties who provide services to the taxpayers of the Unorganized Territory. Bi-annually the Joint Standing Committee on Appropriations and Financial Affairs recommends to the Legislature a statewide budget which includes the statewide components of the State of Maine Unorganized Territory. The Fiscal Administrator drafts a legislative document (L.D.) for the purpose of setting and authorizing the collection of taxes in the UT to the Legislature for consideration. The L.D. is known as the "Municipal Cost Component". Once the L.D. is printed and assigned, the Fiscal Administrator prepares and submits an analytical report of the legislation to the members of the Joint Standing Committee on Taxation, each legislator who has Unorganized Territory within their district, and the office of the county commissioners of each county with the Unorganized Territory.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Once the Legislature approves the Municipal Cost Component, the State Tax Assessor levies a tax on all nonexempt real and personal property in the Unorganized Territory. The taxpayer's bill is based on three components - the cost of State services spread across the unorganized territory, the cost of county provided services specific to each county, and the cost of county taxes specific to each county. The Legislature can also approve de-appropriations to the various departments during the year.
3. Any unexpended balance may not simply lapse to fund balance at the end of the fiscal year but must be carried forward to the same fund for the next fiscal year and must be available for the purposes authorized. Any unexpended fund balance remaining in the fund at the end of the year, not including amounts set aside in capital reserves, that is in excess of 10% of the amount of expenditures for that year must be used to reduce the amount to be collected in taxes during the year.

Deposits and Investments

The Fund's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

It is the Fund's policy to value investments at fair value. None of the Fund's investments are reported at amortized cost. The Fund is authorized by State Statutes to invest all excess funds in the following:

- Obligations of the U.S. Government, its agencies and instrumentalities.
- Certificates of deposits and other evidences of deposits at banks, savings and loan associations, and credit unions.
- Repurchase agreements
- Money market mutual funds

The Fund has no formal investment policy but instead follows the State of Maine Statutes.

Allowance for Uncollectible Accounts

The allowance for uncollectible accounts for the receivables is estimated to be \$0 as of June 30, 2011.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets purchased or acquired with an original cost of \$3,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Infrastructure such as streets, traffic signals, and signs are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful lives.

The assets are valued at historical cost when available and estimated historical cost where actual invoices or budgetary data was unavailable. Donated fixed assets are valued at their estimated fair market value on the date received. All retirements have been recorded by eliminating the net carrying values.

Estimated useful lives are as follows:

Buildings	20 - 50 years
Infrastructure	50 - 100 years
Machinery and equipment	3 - 50 years
Vehicles	3 - 25 years

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Fund or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Fund Equity

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the Fund is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonspendable – This includes amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted – This includes amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – This includes amounts that can be used only for specific purposes determined by a formal action of the inhabitants of the Unorganized Territory. The inhabitants of the Territory through Territory meetings are the highest level of decision-making authority of the Territory. Commitments may be established, modified, or rescinded only through a Territory meeting vote.

Assigned – This includes amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The authority for assigning fund balance is expressed by the Board.

Unassigned – This includes all other spendable amounts. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Fund considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Fund considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Fund meeting vote has provided otherwise in its commitment or assignment actions.

The Fund is in the process of adopting a set of financial policies to guide the financial operation of the Fund. Included in the policies will be guidelines for accumulating and maintaining an operating position in certain budgeted governmental funds such that annual expenditures shall not exceed annual resources, including fund balances. Other funds shall be fully self-supporting to the extent that the fund balance or retained earnings of each fund shall be zero or greater.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition - Property Taxes - Modified Accrual Basis

The Fund's property tax for the current year were committed in July of 2010 on the assessed value listed as of April 1, 2010, for all real and personal property located in the Unorganized Territory. Property taxes were to be paid in one installment with tax due date of October 1, 2010. Interest will begin accruing at a rate of 8.00% after the due date.

The Fund is permitted by the laws of the State of Maine to levy taxes greater than the actual amount required, by rounding up the respective Unorganized Territory county mil rate to the next highest 1/4 mill. This additional millage is referred to as overlay, and amounted to \$317,628 for the year ended June 30, 2011. The variance between actual property tax revenues in the governmental funds and budgeted property tax revenues represents supplemental taxes, abatements and the change in deferred taxes.

Tax liens are recorded against real property between February 21 and March 15 of the year following the date of assessment if any part of the tax, interest and associated costs assessed remain unpaid. The UT property tax liens foreclose on March 30 of the year following the recording of any such liens if any of the tax, interest and associated costs remain unpaid.

Property taxes levied during the year were recorded as receivables at the time the levy was made. The receivables collected during the year and in the first sixty days following the end of the fiscal year have been recorded as revenues in the governmental funds. The remaining receivables have been recorded as deferred revenues in the general fund.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following summarizes the 2011 levy:

	<u>Assessed value</u>	<u>Tax rate</u>	<u>Commitment</u>
Aroostook	\$ 520,416,364	0.741%	\$ 3,856,285
Franklin	294,408,672	0.732%	2,155,071
Hancock	186,247,769	0.592%	1,102,587
Kennebec	3,814,415	0.607%	23,153
Knox	15,458,538	0.556%	85,949
Lincoln	12,654,365	0.571%	72,256
Oxford	208,864,124	0.785%	1,639,583
Penobscot	244,818,237	0.959%	2,347,807
Piscataquis	576,984,556	0.791%	4,563,948
Somerset	659,269,544	0.868%	5,722,460
Waldo	1,773,530	0.629%	11,156
Washington	283,918,559	0.865%	2,455,896
			<u>24,036,152</u>
Tax increment financing assessment			<u>2,334,253</u>
Total commitment			26,370,405
Supplemental taxes assessed			251,178
Less: Homestead reimbursement			(96,318)
Collections and abatements			<u>(25,973,867)</u>
Balance at June 30, 2011			<u>\$ 551,398</u>
Comprised of:			
Personal property taxes			\$ 150,497
Real estate taxes			<u>400,901</u>
Balance			<u>\$ 551,398</u>
Percent of collection			97.93%

Program Revenues

Program revenues include all directly related income items applicable to a particular program (grant income/expenses).

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end. The Fund utilizes encumbrance accounting for its general fund. At June 30, 2011 fund balance restrictions for outstanding encumbrances amounted to \$218,466.

Use of Estimates

During the preparation of the Fund's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent items as of the date of the financial statements and the reported amounts of revenues and expenses / expenditures during the reporting period. Actual results may differ from these estimates.

NOTE 2 - CASH AND INVESTMENTS

The Fund's investment policies, which follow state statutes, authorize the Fund to invest in obligations of the U.S. Treasury, agencies and instrumentalities, other states and Canada, provided such securities are rated within the three highest grades by an approved rating service of the State of Maine, corporate stocks and bonds within statutory limits, financial institutions, mutual funds and repurchase agreements. These investment policies apply to all UT funds.

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Fund will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The Fund does not have a policy covering custodial credit risk.

At June 30, 2011, the Fund had deposits amounting to \$35,358 of which all were insured by federal depository insurance or collateralized with securities held by the financial institution in the Fund's name.

<u>Account Type</u>	<u>Bank Balance</u>
Checking accounts	<u>\$ 35,358</u>

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – CAPITAL ASSETS

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 26,125	\$ -	\$ (12,540)	\$ 13,585
Capital assets, being depreciated:				
Building and improvements	5,197,553	-	(920,019)	4,277,534
Vehicles and equipment	1,429,000	192,784	(169,199)	1,452,585
Total capital assets being depreciated	6,626,553	192,784	(1,089,218)	5,730,119
Accumulated depreciation:				
Building and building improvements	(3,569,504)	(67,265)	521,344	(3,115,425)
Vehicles and equipment	(882,435)	(98,466)	148,947	(831,954)
Total accumulated depreciation	(4,451,939)	(165,731)	670,291	(3,947,379)
Total capital assets, net of depreciation	\$ 2,200,739	\$ 27,053	\$ (431,467)	\$ 1,796,325

NOTE 4 – OPERATING LEASES

A summary of the outstanding operating leases payable is as follows:

The Fund leases a copier from Ikon under a non-cancelable lease agreement. The term of the lease is for 36 months ending in December of 2011. Monthly payments are \$59.

The Fund leases a copier from Ikon under a non-cancelable lease agreement. The term of the lease is for a 60 months ending in October of 2014. Monthly payments are \$151.

Year Ending June 30:	
2012	\$ 2,046
2013	1,811
2014	1,811
2015	604
2016	-
Present value of minimum lease payments	<u>\$ 6,272</u>

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 – PENSION PLAN

Plan Description

All employees of the Maine Unorganized Territory Education and Services Fund are members of the Maine Public Employees Retirement System. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Title 5 MRSA C. 421, 423 and 425. The System provides pension, death and disability benefits to its members. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2011 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The total funds managed by the system are constitutionally restricted and held in trust for the payment of pension and related benefits to its members. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs separate actuarial valuations for each participating entity's respective plan.

Contributions from members and employers and earnings from investments fund retirement benefits. Employer contributions and investment earnings fund disability and death benefits. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined by biennial actuarial valuations.

Upon termination of membership, members' accumulated employee contributions are refundable with interest credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to terminated members' accounts is set by the system's Board of Trustees and is currently 5%.

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of five years of service credit or the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age is 60 or 62, determined by whether the member had at least 10 years of creditable service on June 30, 1993 (effective October 1, 1999, the prior ten-year requirement was reduced to five years by legislative action). For members with fewer than 5 years creditable service on July 1, 2011, normal retirement age is 65. The monthly benefit is reduced by a statutorily prescribed factor for each year of age that a member is below

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 – PENSION PLAN (CONTINUED)

his/her normal retirement age at retirement. The System also provides disability and survivor benefits, which are established by statute for State employee and teacher members, and by contract with other participating employers under applicable statutory provisions.

Participating Local Districts Plan Specifics

In the event that a PLD withdraws from the System, its individual employee-members can terminate membership or remain contributing members. The PLD remains liable for contributions sufficient to fund benefits for its already retired former employee-members; for its terminated vested members; and for those active employees, whether or not vested, who remain contributing System members.

Special Funding Situation – Teachers Defined Benefit Plan

The State is legally responsible for contributions to the Teacher Group that covers retirees of other governmental entities. The State is the sole "employer" contributor for the teachers; therefore, is acting as the employer.

Contribution Requirement

The Maine Constitution, Maine Statutes and the System's funding policy provide for periodic employer contributions at actuarially determined rates that, based upon certain assumptions, are expressed as percentages of annual covered payroll and are sufficient to accumulate adequate assets to pay benefits when due.

Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period.

The State of Maine is required to remit 20% of its General Fund unappropriated surplus at the end of its fiscal year to the System, in order to reduce any unfunded pension liability for State employees and teachers.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension obligation.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 – PENSION PLAN (CONTINUED)

The actuarially determined contribution rates in effect for 2011 for participating entities are as follows:

<u>State:</u>	
Employees	7.65 - 8.65%
Employer	14.12 – 54.49%

<u>Teachers:</u>	
Employees	7.65%
Employer	17.76%

The Maine Unorganized Territory Education and Services fund payroll for teachers covered by this group was approximately \$1,112,472 for the year ended June 30, 2011. The State of Maine is required to provide the employer contribution which amounts to 17.76% of compensation. Contributions paid by the State were approximately \$197,575 for the year ended June 30, 2011. There is no contribution required by the Fund, except for federally funded teachers, which for the year ended June 30, 2011, is included as part of the State of Maine's overall contribution for federally funded employees.

Annual Pension Cost and Net Pension Obligation

The UT's employer's annual pension cost and net pension obligation to the System for the current year is not calculated separately but is calculated as part of the State of Maine's overall plan and information on the pension cost and obligation can be found in the State of Maine Single Audit report.

NOTE 6 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The UT is aware of the existence of several landfills which have all been closed as of June 30, 2011. The liability for postclosure monitoring costs falls on the individual County's Unorganized Territory funds. The State of Maine Unorganized Territory Education and Services Fund would be affected by virtue of an increase in the municipal cost component needs in a year in which postclosure costs were incurred. The amount and timing of these potential postclosure costs are unknown.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7 – COUNTY TAX

The following summarizes the amounts of county taxes paid to each of the counties for the year ended June 30, 2011:

Aroostook	\$	600,522
Franklin		327,613
Hancock		66,208
Kennebec		3,468
Knox		16,157
Lincoln		13,728
Oxford		167,785
Penobscot		298,115
Piscataquis		990,556
Somerset		1,738,314
Waldo		3,176
Washington		<u>353,339</u>
Total	\$	<u><u>4,578,981</u></u>

NOTE 8 – OTHER EMPLOYEE BENEFITS

A. Post-retirement Health Care Benefits

The employees of the State of Maine Unorganized Territory Education and Services Fund are covered under the State of Maine's single-employer defined benefits program. In addition to providing pension benefits, the State of Maine funds health care benefits for most retirees. Specifically excluded are members of the Maine Municipal Association, Maine Teachers Association and employees of counties and municipalities and their instrumentalities. The State pays 100% of post retirement health insurance premiums for state employee retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from 0% for retirees with less than 5 years participation to 100% for retirees with 10 or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Coverage depends upon terms and conditions contained in collective bargaining agreements with the State Health Commission. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. Retirees must pay for Medicare part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees ineligible for Medicare includes basic hospitalization; supplemental major medical and prescription drugs; and costs for treatment of mental health, alcoholism and substance abuse.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8 – OTHER EMPLOYEE BENEFITS (CONTINUED)

Effective January 1, 2006, the State contribution to retired teacher health premiums was increased to 45 percent of the retiree-only premium. The rate is based on a single rate for single and employee plus children coverage, or 50 percent of the two party rate for two party and family coverage.

For State employees and Teachers, other options exist. Part-time employees are eligible for prorated benefits with retirees who worked 50 percent or more of full-time hours receiving 100 percent of the benefit. Surviving spouses and dependents may continue in the plan and pay 100 percent of the premium. Retirees ineligible for a State contribution are allowed to participate and pay the retiree premium.

STATE EMPLOYEES PLAN

Title 5 MRSA §286-B authorizes an irrevocable Trust Fund for Other Post-employment Benefits to meet the State's unfunded liability obligation for retiree health benefits for eligible participants who are the beneficiaries of the irrevocable trust fund. Annually, beginning with the fiscal year starting July 1, 2007, the Legislature shall appropriate funds to meet the State's obligations under any group health plan, policy or contract purchased by the State Employee Health Commission. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not to exceed 10 years. The unfunded liability for retiree health benefits for eligible participants must be retired over 30 years or less from July 1, 2007.

TEACHERS PLAN

A special funding situation exists for these plans. The State is statutorily responsible for contributions to the Teachers Plan that covers the retirees of other governmental entities. The State is also the sole contributing entity for Teachers, therefore, making the contribution on behalf of the employing jurisdictions at a 45 percent level for the current portion of the health plan costs and are not included in the Trust.

B. Post retirement Life Insurance Benefits

In addition to providing pension and health care benefits and in accordance with statutory authority, the State of Maine, through the Maine Public Employees Retirement System, provides Basic group life insurance benefits, during retirement, to retirees who participated in the group life insurance plan prior to retirement for a minimum of 10 years. The 10 year participation requirement does not apply to recipients of disability retirement benefits. For financial reporting purposes, the System administers an agent,

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8 – OTHER EMPLOYEE BENEFITS (CONTINUED)

multiple-employer, defined benefit public employee retirement system established and administered under the Title 5 MRSA C. 421, 423 and 425. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2011 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The level of coverage in retirement is initially set to an amount equal to the retiree's average final compensation. The initial amount of Basic group life insurance benefit is then subsequently reduced at the rate of 15% per year to the greater of 40% of the initial amount or \$2,500.

Group life insurance funds managed by the System are constitutionally restricted and held in trust for the payment of benefits to participants or their beneficiaries. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs a single actuarial valuation that provides separate data for each participating entity.

Premium rates are those determined by the System's Board of Trustees to be actuarially sufficient to pay anticipated claims and cover administrative costs.

For State employee, legislative and judicial classes, the premiums for retiree life insurance coverage are factored into the premiums paid for Basic coverage while participants are active members. The State remits premiums at a single rate that supports basic coverage for active and retired State employees. This rate is \$.56 per month for every \$1,000 of coverage. Premiums for retiree life insurance coverage for retired teachers are paid by the State based on a rate of \$.33 per \$1,000 of coverage per month during the post-employment retired period.

NOTE 9 – RISK MANAGEMENT

The State maintains several types of self-insurance plans. These include property, vehicle, boat and aircraft, tort, civil rights, employee bonds, police professionals, and a variety of other insurance products. The UT participates in these plans. Full disclosure regarding claims, excess insurance and claims and judgment liabilities can be found in the State of Maine's Single Audit Report.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10 – FEDERAL AWARDS

The following federal awards were expended by the State of Maine Unorganized Territory Education and Services Fund for the fiscal year ended June 30, 2011. These funds were included on the State of Maine's federal awards and subjected to auditing procedures.

Fresh Fruit & Vegetable Program	\$ 1,968
Breakfast – SNP	21,285
Section II Funds SNP	33,877
Title IA Disadvantaged	125,358
IDEA	106,956
ARRA IDEA	<u>131,640</u>
	<u>\$ 421,084</u>

NOTE 11 - CONTINGENT LIABILITIES

The Fund participates in a number of federal and state assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of these programs for or including the year ended June 30, 2011, have not yet been conducted. Accordingly, the Fund's compliance with applicable grant requirements will be established at some future date. The expenditure amounts, if any, which may be disallowed by granting agencies cannot be determined.

NOTE 12 – SUBSEQUENT EVENTS

During the audit of the State of Maine UT fund, it was brought to management's attention that there may be several reporting and disclosure issues regarding some of the UT county services funds that are paid to and handled by the applicable Counties. Due to the complex nature of these issues and the effect on both the counties and the State of Maine UT fund, we have not reflected these items in the financial statements for the year ended June 30, 2011. Future impact on the State of Maine UT fund cannot be determined at this time. The UT intends to work with the affected counties to identify the required changes and make the required implementations and disclosures in the financial statements of the State of Maine UT fund in future periods.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 13 – EXPENDITURES OVER APPROPRIATIONS

The Territory had no overspent appropriations at June 30, 2011.

NOTE 14 – NONSPENDABLE FUND EQUITY

At June 30, 2011 the Territory had the following nonspendable fund balance:

Reserve for encumbrances	<u>\$ 218,466</u>
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NOTE 15 – COMMITTED FUND EQUITY

At June 30, 2011 the Territory had the following committed fund balance:

Reserve for FY 2012 to reduce taxes	<u>\$ 2,000,000</u>
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Required Supplementary Information

Required supplementary information includes financial information and disclosures that are required by the Government Accounting Standards Board but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – Budgetary Basis – Budget and Actual General Fund

SCHEDULE 1

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

BUDGETARY COMPARISON SCHEDULE – BUDGETARY (GAAP) BASIS
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Taxes:				
Property taxes	\$ 26,370,353	\$ 26,370,353	\$ 26,097,259	\$ (273,094)
Intergovernmental revenues	518,640	518,640	481,893	(36,747)
Charges for services	250,000	250,000	101,622	(148,378)
Miscellaneous revenue	116,000	116,000	216,256	100,256
TOTAL REVENUES	<u>27,254,993</u>	<u>27,254,993</u>	<u>26,897,030</u>	<u>(357,963)</u>
EXPENDITURES				
Current:				
Education	12,529,594	12,529,594	11,619,568	910,026
County reimbursements for services	5,820,971	5,820,971	5,821,024	(53)
Departmental	1,664,756	1,664,756	1,660,804	3,952
County tax	4,587,791	4,587,791	4,587,791	-
Tax increment financing	2,334,253	2,334,253	2,334,253	-
Overlay	317,628	317,628	-	317,628
TOTAL EXPENDITURES	<u>27,254,993</u>	<u>27,254,993</u>	<u>26,023,440</u>	<u>1,231,553</u>
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	-	-	873,590	873,590
FUND BALANCE - JULY 1			<u>4,509,585</u>	
FUND BALANCE - JUNE 30			<u>\$ 5,383,175</u>	

See accompanying independent auditors' report and notes to financial statements.

Other Supplementary Information

Other supplementary information includes financial statements and schedules not required by the Government Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

- Comparative Balance Sheets – General Fund
- Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund

SCHEDULE A

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

COMPARATIVE BALANCE SHEETS – GENERAL FUND
JUNE 30, 2011

	<u>2011</u>	<u>2010</u>
ASSETS		
Receivables (net of allowance for uncollectibles):		
Taxes receivable - current year	\$ 413,716	\$ 437,414
Taxes receivable - prior years	126,064	115,652
Tax liens	11,618	8,321
Due from other governments	88,699	-
Other	60,160	-
Due from State of Maine Treasury	<u>5,774,300</u>	<u>5,407,421</u>
TOTAL ASSETS	<u><u>\$ 6,474,557</u></u>	<u><u>\$ 5,968,808</u></u>
LIABILITIES AND FUND EQUITY		
Liabilities		
Accounts payable	\$ 387,661	\$ 899,981
Accrued wages	168,300	128,322
Taxes paid in advance/overpaid taxes	38,297	30,130
Deferred tax revenue	<u>497,124</u>	<u>400,790</u>
TOTAL LIABILITIES	<u><u>1,091,382</u></u>	<u><u>1,459,223</u></u>
Fund Equity		
Nonspendable	218,466	159,521
Restricted	-	-
Committed	2,000,000	-
Assigned	-	-
Unassigned	<u>3,164,709</u>	<u>4,350,064</u>
TOTAL FUND EQUITY	<u><u>5,383,175</u></u>	<u><u>4,509,585</u></u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 6,474,557</u></u>	<u><u>\$ 5,968,808</u></u>

See accompanying independent auditors' report and notes to financial statements.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

	2011				2010
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual
Revenues:					
Taxes:					
Property taxes	\$ 26,370,353	\$ 26,370,353	\$ 26,193,593	\$ (176,760)	\$ 27,136,899
Change in deferred property taxes	-	-	(96,334)	(96,334)	217,210
Total taxes	<u>26,370,353</u>	<u>26,370,353</u>	<u>26,097,259</u>	<u>(273,094)</u>	<u>27,354,109</u>
Intergovernmental:					
On-behalf payments - teachers retirement	250,000	250,000	197,575	(52,425)	218,507
Homestead reimbursement	70,000	70,000	96,318	26,318	138,785
State Revenue Sharing	<u>198,640</u>	<u>198,640</u>	<u>188,000</u>	<u>(10,640)</u>	<u>206,967</u>
Total intergovernmental	<u>518,640</u>	<u>518,640</u>	<u>481,893</u>	<u>(36,747)</u>	<u>564,259</u>
Charges for services:					
Educational tuition/transportation	<u>250,000</u>	<u>250,000</u>	<u>101,622</u>	<u>(148,378)</u>	<u>185,394</u>
Total charges for services	<u>250,000</u>	<u>250,000</u>	<u>101,622</u>	<u>(148,378)</u>	<u>185,394</u>
Other:					
Miscellaneous	55,000	55,000	55,047	47	321,826
Sale of assets	-	-	101,427	101,427	-
Interest on taxes	-	-	1,928	1,928	-
Education - trust	<u>61,000</u>	<u>61,000</u>	<u>57,854</u>	<u>(3,146)</u>	<u>61,803</u>
Total other	<u>116,000</u>	<u>116,000</u>	<u>216,256</u>	<u>100,256</u>	<u>383,629</u>
Total revenues	<u>27,254,993</u>	<u>27,254,993</u>	<u>26,897,030</u>	<u>(357,963)</u>	<u>28,487,391</u>

SCHEDULE B (CONTINUED)

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

	2011				2010
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual
Expenditures:					
Education:					
General operations	7,177,026	7,177,026	7,456,110	(279,084)	7,617,530
Salaries and benefits	2,850,988	2,850,988	2,053,234	797,754	2,017,498
Professional services	1,307,882	1,307,882	1,342,453	(34,571)	997,130
Travel expenses	49,071	49,071	42,161	6,910	38,735
Vehicle operation	178,231	178,231	157,556	20,675	129,422
Utility services	56,134	56,134	54,738	1,396	54,922
Rents	2,741	2,741	3,294	(553)	2,711
Repairs	63,333	63,333	18,463	44,870	19,377
Insurance	21,689	21,689	21,521	168	20,495
Fuel	82,477	82,477	55,638	26,839	37,073
Supplies	88,814	88,814	38,274	50,540	40,418
Transportation	200,317	200,317	150,755	49,562	143,238
Capital improvements - general	149,000	149,000	7,345	141,655	107,810
Teacher retirement	250,000	250,000	197,575	52,425	218,507
Other	51,891	51,891	20,451	31,440	19,186
Total education	<u>12,529,594</u>	<u>12,529,594</u>	<u>11,619,568</u>	<u>910,026</u>	<u>11,464,052</u>

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL – GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2011

		2011			2010
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual
Expenditures, continued:					
County reimbursements for services:					
Aroostook	933,290	933,290	933,290	-	885,417
Franklin	600,521	600,521	600,521	-	564,825
Hancock	158,542	158,542	158,542	-	154,505
Kennebec	880	880	933	(53)	872
Oxford	494,827	494,827	494,827	-	480,525
Penobscot	904,838	904,838	904,838	-	885,380
Piscataquis	1,033,573	1,033,573	1,033,573	-	1,389,350
Somerset	911,530	911,530	911,530	-	888,306
Washington	782,970	782,970	782,970	-	762,597
Total County reimbursements for services	5,820,971	5,820,971	5,821,024	(53)	6,011,777
Departmental:					
Fiscal Administrator	198,691	198,691	163,960	34,731	160,598
Assessments	788,218	788,218	853,754	(65,536)	820,623
Forest fire service	93,916	93,916	53,793	40,123	87,160
General assistance	58,000	58,000	52,339	5,661	46,417
Passamaquoddy	-	-	11,027	(11,027)	12,038
Land Use Regulation Commission	525,931	525,931	525,931	-	487,977
Total departmental	1,664,756	1,664,756	1,660,804	3,952	1,614,813

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL – GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2011

	2011			2010	
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual
Expenditures, continued:					
Unclassified:					
County tax	4,587,791	4,587,791	4,587,791	-	4,578,981
Tax Incremental Financing	2,334,253	2,334,253	2,334,253	-	1,204,744
Overlay	317,628	317,628	-	317,628	-
Total unclassified	7,239,672	7,239,672	6,922,044	317,628	5,783,725
 Total expenditures	27,254,993	27,254,993	26,023,440	1,231,553	24,874,367
 Excess (deficiency) of revenues over (under) expenditures	-	-	873,590	873,590	3,613,024
 Other financing sources (uses):					
Budgeted use of surplus-cost component	-	-	-	-	-
 Total other financing sources (uses)	-	-	-	-	-
 Net change in fund balance	-	-	873,590	873,590	3,613,024
 Fund balance, July 1,			4,509,585		896,561
 Fund balance, June 30,			\$ 5,383,175		\$ 4,509,585

See accompanying independent auditors' report and notes to financial statements.



Proven Expertise and Integrity

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS

December 12, 2011

State Auditor
State of Maine Department of Audit
Unorganized Territory Education and Services Fund
Augusta, Maine

We have audited the financial statements of the governmental and fiduciary funds of the State of Maine Unorganized Territory Education and Services Fund, a fund of the State of Maine, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Maine Unorganized Territory Education and Services Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Maine Unorganized Territory Education and Services Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

3 Old Orchard Road, Buxton, Maine 04093
Tel: (800) 300-7708 (207) 929-4606 Fax: (207) 929-4609

www.rhrsmith.com

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting are described in page 46. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less server that a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Maine Unorganized Territory Education and Services Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of State of Maine Unorganized Territory Education and Services Fund in a separate letter dated December 12, 2011.

The State of Maine Unorganized Territory Education and Services Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the State of Maine Unorganized Territory Education and Services Fund's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, the State of Maine Department of Audit, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

RHR Smith & Company

Certified Public Accountants

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

FINDINGS - FINANCIAL STATEMENT AUDIT – CURRENT

CONTROL DEFICIENCIES

2011-1

Title: The Fund does not maintain an adequate financial reporting system.

Condition: The Fund does not maintain an accounting system in such a fashion as to create periodic reports including trial balances, revenue and expense reports and budget reports to maintain an accurate view of the Fund's current financial position.

Context: The Fund does not maintain an accounting system in such a fashion as to create periodic reports including trial balances, revenue and expense reports and budget reports to maintain an accurate view of the Fund's current financial position.

Effect: That errors within the State of Maine's accounting system may occur in processing Fund financial information and not be detected in a relatively reasonable period of time by the Fund.

Recommendation: The Fund needs to establish a separate accounting of its activity so that accurate financial information can be ascertained easily and in a timely manner. This will allow financial and budgetary reports to be periodically generated and reviewed to detect errors or mispostings.

**Management
Response:**

Management agrees with this finding. The fund structure that is being utilized is dictated by the legislative process. It is the goal of management to produce quarterly reports monitoring expenses and revenues, to review the reports with the appropriate state agencies, and to compare the reports to appropriated amounts.